

Message Text

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ACTION EUR-12

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R 261520Z MAY 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 4883
INFO AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL TURIN
AMCONSUL FLORENCE
AMCONSUL PALERMO
AMCONSUL NAPLES
AMCONSUL TRIESTE

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PASS USDOC

E.O. 11652: N/A
TAGS: BGEN, IT
SUBJECT: NORTH ITALIAN BUSINESS CLIMATE MORE OPTIMISTIC

1. SUMMARY. ON OCCASION OF AMBASSADOR'S TOUR OF NORTH ITALY JUST
COMPLETED, COMCOUNSELOR, WHO ACCOMPANIED AMBASSADOR PART-TIME, TOOK
READING OF BUSINESS CLIMATE IN THREE MAJOR ITALIAN INDUSTRIAL CENTERS-

MILAN, TURIN AND GENOA. AS RESULT OF MEETINGS WITH SOME 18 LEADING
INDUSTRIALISTS AND TRADE ASSOCIATION EXECUTIVES AS WELL AS TWO BANKERS,

THE OVERALL IMPRESSION GAINED IS ONE OF SIGNIFICANT CHANGE FOR THE
BETTER SINCE LATTER HALF OF 1976. PRODUCTIVITY IS INCREASING,
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ABSENTEEISM DECREASING, AND EXPORT ORDERS ARE UP. SOME SIGNS
OF LEVELING OFF BEGAN TO APPEAR IN LAST 2-3 WEEKS.END SUMMARY.

2. FOREGOING CONSENSUS PREVAILED IN ALL THREE REGIONS, WITH TURIN
SHOWING MOST OPTIMISM, MILAN NEXT, AND GENOA-AS CHARACTERIZED
BY ITS
OWN BUSINESSMEN-MORE OR LESS ON EVEN KEEL BECAUSE GENOANS ARE

MORE CONSERVATIVE AND DO NOT EXPERIENCE THE UPS AND DOWNS OF THEIR MORE VOLATILE NEIGHBOURS.

3. BUSINESS CLIMATE DURING THE FIRST QUARTER OF 1977 HAS INVOLVED TWO ELEMENTS AT PLAY: (1) BUSINESS ACTIVITY, WHICH IS MEASURABLE AND REFLECTED IN SUCH FACTORS SUCH AS PRODUCTION AND EMPLOYMENT, AND 2) BUSINESS CONFIDENCE, THE MORE ESOTERIC ELEMENT AS REFLECTED BY INVESTMENT AND LABOR/MANAGEMENT ATTITUDES. THE FORMER IS UNMISTAKABLE UP; FOR EXAMPLE, ONE MAJOR FACTORY IN MILAN REPORTED AN INCREASE IN PRODUCTION OF 27 PERCENT IN THE FIRST QUARTER OF '77 OVER SIMILAR PERIOD '76. THE OTHER ELEMENT, CONFIDENCE, REMAINS SHAKY BECAUSE OF CONTINUING POLITICAL UNCERTAINTY. NEW INVESTMENT IS FLAT. HOWEVER, COMPANIES, ESPECIALLY IN TURIN AND MILAN, ARE REINVESTING PROFITS TO RESTRUCTURE PLANTS AND IMPROVE EFFICIENCY IN ORDER TO STAY COMPETITIVE. SOME CONCLUSIONS ON MAJOR ISSUES OF IMPORTANCE TO THE ITALIAN ECONOMY, AND ON WHICH MOST BUSINESS EXECUTIVES EXPRESSED UNIFORM VIEWS, FOLLOW.

4. LABOR PROBLEMS: LABOR LEADERS AND INDEED THE PCI LEADERSHIP SEEM TO HAVE AWAKENED TO THE DANGERS OF THE ITALIAN DRIFT TOWARD ANARCHY--ECONOMIC AS WELL AS POLITICAL--AND ARE TAKING A MORE SOBER ATTITUDE TOWARD ECONOMIC TRUTHS: PRODUCTION MUST BE RAISED, ABSENTEEISM LOWERED AND INFLATION BROUGHT INTO LINE TO KEEP ITALIAN INDUSTRY COMPETITIVE IN EXPORT MARKETS. THIS MESSAGE HAS GOTTEN THROUGH TO THE LEADERSHIP, BUT NOT TO PLANT LEVELS. RANK-AND-FILE WORKERS ARE ASKING FOR WAGE INCREASES EXCEEDING THE 16 PERCENT MAXIMUM INCREASE IN LABOR COSTS FOR 1977 TARGETED UNDER THE GOVERNMENT STABILIZATION PROGRAM, AND THEY ARE AS RIGID AS EVER AGAINST LABOR MOBILITY. PLANT UNIONS ATTITUDE IS THAT IF WORKERS LIMITED OFFICIAL USE

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CAN BE SHIFTED--EVEN WITHIN PLANT--COMPANIES WILL USE THIS TO REDUCE EMPLOYMENT UNDER THE GUISE OF INCREASING EFFICIENCY. ABSENTEEISM, HOWEVER, IS DECLINING. IN TURIN, ABSENTEEISM DURING THE FIRST QUARTER OF 1977 DECLINED TO 11 PERCENT FROM ITS PREVIOUS LEVEL OF 17 PERCENT: WORKERS ON CASSA INTEGRAZIONE (WAGE SUPPLEMENT FUND FOR WORKERS LAID OFF PART OR FULL-TIME) DECLINED FROM AN AVERAGE OF 3.4 MILLION HOURS IN FIRST QUARTER OF 1976 TO 84,049 HOURS IN JANUARY-FEBRUARY THIS YEAR--A MOST DRAMATIC INDICATOR OF BETTER TIMES.

5. CO-MANAGEMENT: ALL INDUSTRIALISTS ARE AGAINST IT AND SAID THAT LABOR LEADERS WITH WHOM THEY DEAL DON'T WANT CO-MANAGEMENT. BESIDES, LABOR IS RECEIVING THE MANAGEMENT INFORMATION IT NEEDS FOR BARGAINING PURPOSES.

6. PRODUCTIVITY: UNIVERSALLY LOOKED UPON BY MANAGEMENT AS THE ANSWER TO ITALY'S ECONOMIC ILLS. PROGRESS IS ALREADY EVIDENT IN FIRST QUARTER OF 1977. PRODUCTIVITY WILL EVENTUALLY OVERCOME ITALY'S LABOR COST PROBLEM, AND WILL BE THE KEY TO MAINTAINING

ITALY'S COMPETITIVENESS IN EXPORT MARKETS. CONTINUING DEVALUATION
OF THE LIRA WILL NOT SOLVE THE PROBLEM.

7. CREDIT CEILINGS: THE CREDIT CEILINGS EXTENDED TO MARCH 1978 BY
THE BANK OF ITALY WHICH LIMIT EXPANSION OF CREDIT TO 12 PERCENT
OVER THE MID-1976 LEVELS CAN BE ENDURED, ACCORDING TO BANKERS
INTERVIEWED. ONE BANKER COMMENTED THAT RECEIPTS FROM EXPORTS ON A
CONTINUING 90 DAY BASIS, COUPLED WITH THE RISING TREND OF EXPORTS
AND APPROACH OF SUMMER SEASON, RELIEVE PRESENT CREDIT PRESSURE, BUT
WHEN BUSINESS ACTIVITY PICKS UP IN THE FALL A PINCH WILL BE FELT.
RE THE LIRA IT IS EXPECTED TO REMAIN STABLE THROUGH SUMMER, BUT
DEVALUE FURTHER TO, SAY, 900-925 IN THE FALL. ONE LARGE TURIN BANKER
PLACED HIS BANK'S PRIMARY RATE AT 18.5 PERCENT "TO ALL COMERS",
BUT WAS PROMPTLY CONTRADICTED BY SEVERAL COMPANY EXECUTIVES WHO
SAID THAT PRIME RATES THEY ARE CHARGED BY BANKS RUN TO 20-22
PERCENT AND THIS CONSTITUTES HIGH COST FACTOR WHICH ALONG WITH
LABOR COSTS ARE PASSED ON TO THE CONSUMER.
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8. SMALL AND MEDIUM INDUSTRY: THIS SECTOR IS DOING RELATIVELY WELL
BECAUSE OF LOYALTY OF WORKERS, LESS STRIKES AND ABSENTEEISM, LESS
INDEBTEDNESS, AND PRODUCTIVITY ACHIEVED THRU "MOONLIGHTING". WHEN
ASKED ABOUT THE APPARENT CONTRADICTION BETWEEN DECREASING ABSENTEEISM
(SINCE ABSENTEES ALLEGEDLY WERE "MOONLIGHTING" DURING OFF-DAYS FROM
JOBS), BUT CONTINUING WORK INPUT BY "MOONLIGHTERS", EMPLOYERS SAID THI
THIS
UNRECORDED EMPLOYMENT IS INCREASINGLY SUPPLIED BY FIRST-TIME JOB
SEEKERS AMONG YOUTH.

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9. BIG BUSINESS: IRI GIANTS AS WELL AS LARGE PRIVATE FIRMS ARE IN RELATIVELY WORSE CONDITION BECAUSE THEY HAVE BORROWED HEAVILY FROM BANKS OVER THE YEARS TO FUND NEW INVESTMENTS AND "CARRY" UNPROFITABLE SECTORS. RESULT: THEIR ACCUMULATED DEBT SERVICE COSTS EAT AWAY PROFITABILITY.

10. POLITICAL: WHILE NOT NEWS, ALL AGREED THAT POLITICAL CONFUSION IS THE ROOT CAUSE OF BUSINESS UNCERTAINTY AND THE LACK OF NEW INVESTMENT. AT SAME TIME, PRIME MINISTER ANDREOTTI'S ECONOMIC STABILIZATION PROGRAM IS HAVING DESIRED EFFECT OF SOBERING UP THE ELECTORATE. MOST EXECUTIVES FELT THAT PCI IS LOSING GROUND BECAUSE IT IS NOT READY TO DEMONSTRATE NATIONAL LEADERSHIP. SOCIALIST PARTY POLICIES ARE UNSYMPATHETIC TO BUSINESS: PSI WOULD LOSE EVEN MORE THAN PCI IF ELECTIONS WERE HELD TOMMOROW. DC SHOULD HOLD STEADY ON THE PRESENT ROAD TO STABILIZATION ON
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WHICH IT HAS EMBARKED.

11. POTPOURRI: (A) COMMERCIAL DIRECTOR OF ITALIMPIANTI, GENOA'S ENGINEERING CONSTRUCTION COMPANY THAT LANDED \$3 BILLION BANDER ABBAS PROJECT FOR STEEL MILL IN IRAN, SAID FIRM IS VERY COMPETITIVE IN EXPORT MARKETS, WHERE IT DOES 90 PERCENT OF ITS BUSINESS COMPARED WITH 50 PERCENT A FEW YEARS AGO, BUT COMPLAINED ABOUT STRINGENCY OF DOMESTIC CREDIT TO FINANCE ITS ITALIAN SUPPLIERS. COMPANY IS INTERESTED IN COLLABORATION WITH US FIRMS; (B) ITALIAN WORKERS AT SAUDI ARABIAN PROJECTS ARE SENDING REMITTANCES TO SWITZERLAND INSTEAD OF CHNAGING THEM TO LIRA--A VOTE AGAINST THE LIRA.

(C) ITALSIDER SAYS THAT THE AMBITIOUS PROJECT BY THE FUND FOR THE SOUTH TO BUILD A FIFTH STEEL COMPLEX AT GIOIA TAURO WILL NT COME OFF. INSTEAD, THE SITE WILL BE USED FOR A SMALLER PROCESSING PLANT. THE BIG INVESTMENT IN STEEL (\$400 MILLION) IS BEING MADE ON ANTI-POLLUTION FURNACES FOR ITALSIDERS GENOA PLANT: (D) SOURCES AT SIR, ITALY'S THIRD LARGEST CHEMICAL FIRM, MORE OR LESS CONFIRMED THAT

NINO ROVELLI, PRESIDENT, QUIETLY BOUGHT-UP SOME 12 PERCENT OF
MONTEDISON STOCK BEFORE THE COUP ANNOUNCING COLLABORATION WITH
MONTEDISON, WHICH PLACES ROVELLI AMONG THE LARGEST STOCKHOLDERS.
ALSO, CEFIS IS SUPPOSED TO BE SETTLING IN CANADA, WITH GRANDI
THE LEADING CANDIDATE FOR MONTEDISON PRESIDENCY.

12. TRIP REPORT AND INDIVIDUAL MEMCONS OF UNUSUAL SIGNIFICANCE
WILL BE SENT TO ADDRESSEES.GARDNER

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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